

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: April 28, 2020

TO: Honorable Members of the City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No. 20-0147-S10
Assignment No. 20-04-0405

SUBJECT: Council District 10 Small Business Relief Fund/Emergency Microloan Program
Status

SUMMARY

On March 17, 2020, Motion (Wesson-Price, C.F. 20-0147-S10) was adopted, which directed the Economic and Workforce Development Department (EWDD), with the assistance of the Chief Legislative Analyst (CLA) and the City Administrative Officer (CAO), to report on the creation of a small business relief program for businesses located in the 10th Council District, to be funded by an allocation of \$750,000 from the district's AB 1290 account. After consultation with EWDD and the Council Office, it is recommended that the funding identified by Council District 10 be transferred to EWDD's existing microloan program and be utilized for the express purpose of providing microloans to businesses located in the Council District. All loans would be subject to EWDD's existing loan terms, including a loan amount between \$5,000-\$20,000, the possibility of zero percent interest, repayment deferral, and no fees.

As part of our review of the options to create a loan program for CD 10 businesses, we report that over 2,700 microloan applications have yet to be reviewed. Based on the overwhelming number of loan applications the City has received to date and the shortage of staff to process these applications, we recommend that the CAO, with the assistance of EWDD and the CLA, to report on funding at minimum seven temporary positions to meet the demands of the Emergency Microloan Program.

RECOMMENDATIONS

That the City Council, subject to approval of the Mayor:

1. Transfer \$750,000 from the AB1290 Fund No. 53P Account No. 281210 (CD 10 Redevelopment Projects - Services) to the Economic Development Trust Fund No. 62L/22.
2. Establish a new account within the Economic Development Trust Fund No. 62L/22 and appropriate as follows:

Acct. #	Account Name	Amount
22SXXX	Emergency Microloan Program - CD 10 AB 1290	\$750,000

3. Direct the Economic and Workforce Development Department (EWDD) to utilize the above funding only for businesses located in the 10th Council District, with all other loan terms/requirements to be consistent with the existing microloan program.
4. Direct the City Administrative Officer (CAO), with the assistance of EWDD and the Chief Legislative Analyst (CLA), to report on funding at minimum seven temporary positions to meet the demands of the Emergency Microloan Program.
5. Authorize the CLA to make any technical changes to effectuate the intent of this report.

FISCAL IMPACT

There is no impact to the General Fund as a result of this action.

BACKGROUND

The COVID-19 pandemic is having substantial impacts on the City's small businesses, resulting in the closure of businesses by the thousands, the layoff of employees, the loss of revenue, and a sense of uncertainty. In 2017, the City created a microloan program funded by the Community Development Block Grant (CDBG). On March 17, 2020, the Council combined \$11 million in funding from the Reserve Fund, Enterprise Zone Tax Credit Voucher Program, and the existing microloan account to create the Small Business Emergency Loan Program to provide assistance to small businesses suffering as a result of the coronavirus pandemic. The program provides no fee loans between \$5,000-\$20,000, with a zero percent interest rate and with repayment deferred up to six months. Complete terms can be found in Attachment A to this report.

Motion (Wesson-Price) requested EWDD, with the CLA and CAO, to report with recommendations to provide small businesses with financial relief using AB 1290 funds provided by Council District 10. After consultation with EWDD and the Council Office, it was determined that the most expedient method of providing funding to businesses in the 10th Council District would be to supplement the City's existing microloan program. The proposed funding will support between 38 and 150 loans, depending on the level of funding requested from businesses that apply. EWDD reports that the majority of businesses are expected to request the full loan amount of \$20,000. EWDD will hold the \$750,000 in abeyance until the full \$11 million in Citywide emergency funds have been allocated. This process will ensure that the district's funds will only be drawn upon to provide additional support to those businesses located in the 10th district.

Status of Microloan Program

In this time of economic crisis, businesses in Council District 10 and the City at large are seeking funding from the local, state, and federal level to sustain their operations during a period of turmoil not seen in generations. As part of our review of the options to create a loan program for CD 10 businesses, we reviewed the status of the City's emergency microloan program. The severity of the pandemic's effects on the economy is evident by the number of loan applications EWDD has received. As of April 27, 2020, the department had received 3,601 applications. Assuming all applicants request a \$20,000 loan, this represents \$72,020,000 in loans, over six times the funding available. Currently, the department has a team of 33 full-time equivalents (FTE's) working on the loan programs, as shown in Table 1. The department recommends an additional 7 FTE's for a total of 40 FTE's on the microloan team. At this revised staffing level, the team's goal is to screen 100 loans per day, and underwrite 20 loans per day. Not all loans reviewed will move onto underwriting due to incomplete or ineligible applications, including being located outside the City limits.

Attachment B of this report provides a detailed snapshot of the program status as of April 27, 2020, showing that of the 3,601 applications received to date, 2,785 have yet to be processed. It is evident that the team is understaffed, as more applications will be submitted over the next several weeks. EWDD reports that the 40 FTE level is the minimum required to maintain the program, additional staff above this amount would enable small business applicants to receive loan funding more expeditiously. The Housing and Community Investment Department recently assigned five temporary underwriters to assist the program, and EWDD is receiving additional assistance via contracted underwriters. We recommend that the CAO, with the assistance of EWDD and the CLA, report on funding a minimum of seven temporary positions to meet the demands of the Emergency Microloan Program.

Table 1
Microloan Program Staffing

Activity	Current FTE's	Additional Support Needed	Total FTE's Required (Minimum Per EWDD)	Daily Team Output Goal
Prescreening	8.5	1.5	10	100 loans/day
Underwriting	15	-	15	20 loans/day
Contracts	3.25	1.75	5	-
Disbursement	1.25	3.75	5	-
Administrative Support	2	-	2	-
Approval	3	-	3	-
Totals	33	7	40	

/s Clay McCarter - rg
Clay McCarter
Analyst

Attachments: A. Microloan Term Sheet.
B. Microloan Metrics as of April 27, 2020.

SMALL BUSINESS EMERGENCY MICROLOAN PROGRAM

	LOAN TERMS
Availability	Citywide
Application Process	On-line
Loan Amount	\$5,000 - \$20,000
Interest Rate	Option 1 - 0% for a term of up to 18 months with repayment deferred up to 6 months Option 2 - 3% for a term of up to 5 years with repayment deferred up to 12 months (available to for-profit businesses) Option 3 - 2% for a term of up to 5 years with repayment deferred up to 12 months (available to tax-exempt businesses)
Term	18 months to 5 years
Amortization	Up to 5 years
Loan Fee	No fee
Admin Fee (credit report)	No fee
Eligible Uses	Working capital only
Collateral / Security	Personal Guaranty
Maximum LTV (collateral value)	100%
Debt Service Coverage Ratio	1:1
Eligible Borrowers	For-profit and tax-exempt businesses in the City of Los Angeles with 100 or fewer employees and that have been negatively impacted by the COVID-19 outbreak and will make their best effort to continue or re-establish their business operations and employees.
National Objective for CDBG Funded Loans	Assistance to low-income microenterprises.

Public Benefit Standard for CDBG Funded Loans	Not applicable to assistance to microenterprises
Public Benefit for non-CDBG Funded Loans	Stabilization of businesses in the City.
Establishing Need	Businesses negatively impacted by COVID-19
Approval process	Loan committee waived - Approval by EWDD GM or AGM

Emergency Microloan Metrics

As of 4/27/2020

Total applications received to date:	3,601
Applications in pre-screening:	10
Incomplete applications returned to applicants:	156
Number of applications in underwriting:	135
Number of applications approved: ● Pending approval letter: 0 ● Pending acceptance from borrower: 10 ● In document preparation: 4 ● In signature process: 11 ● In City Clerk process: 1 ● In funding/requesting wire: 8 ● Funded: 48 ● Withdrawn by applicant: 3	85
Number of applications denied by underwriter:	47
Number of applications rejected due to ineligibility (Outside the City, debarred, suspended, etc.)	383
Applications pending review	2,785